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THE WORLD ECONOMY AT THE END OF 1991: SHORT-TERM PROSPECTS AND EMERGING ISSUES

Note by the Secretary-General

I. OVERVIEW: WIDESPREAD DECLINE AND FEEBLE RECOVERY

The world economy did worse in 1991 than predicted a year ago when it was already weakening rapidly. World output fell for the first time since the end of the Second World War, and world trade virtually stagnated (see table 1). The total population of countries where per capita income declined was 1.4 billion, or a quarter of world population, up from just under 1 billion in 1990 and 0.8 billion in 1989. Only a feeble recovery is expected in 1992, with output continuing to decline in a number of countries and rising slowly in most others.

Table 1. Growth of world output

(Percentage)

	1988	1989	1990	1991	1992
Total	4.5	3.1	1.5	-0.3	1 1/2
Per capita	2.7	1.3	-0.3	-2.0	-1/4

Source: Table 2.

After a modest growth of 1.5 per cent in 1990, world output declined by 0.3 per cent in 1991. The decline has been pervasive (see table 2). Output fell or stagnated in most developed market economies and plunged in Eastern Europe and the former Soviet Union. Among the developing regions, output barely kept pace with the growth of population in Latin America and Africa. In West Asia, the Gulf conflict resulted in substantial loss of income and immense human suffering. In South and East Asia growth decelerated by almost a full percentage point.

Table 2. Growth of world output by region, 1981-1992 a/

(Annual percentage change in gross domestic product)

	1981-1987	1988	1989	1990	1991 b/	1992 c/	Population 1991 (millions)
World	2.6	4.5	3.1	1.5	-0.3	1 1/2	5 385
Developed market economies	2.5	4.4	3.3	2.4	* 0.9	2 1/2	817
North America	2.8	4.4	2.6	0.9	-0.6	2 1/2	278
Western Europe	1.8	3.7	3.5	2.7	* 0.6	2	359
Developed Asia	3.7	5.9	4.6	5.1	4.0	3 1/2	144
Eastern Europe and the former Soviet Union	3.0	4.4	2.3	-5.1	* -14.1	-9 1/2	408
Developing countries	3.2	5.0	3.2	3.0	3.5	4 1/2	4 160
Memo item:							
Growth of world exports (annual percentage change)	3.4	8.0	6.6	4.3	1.0	3	

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Note: An asterisk (*) indicates discontinuity in the series owing to the accession of the former German Democratic Republic to the Federal Republic of Germany.

a/ For a definition of counry groupings, see World Economic Survey 1991 (United Nations publication, sales No. E.91.II.C.1).

b/ Preliminary estimate.

c/ Forecast, based in part on Project LINK.

Perceptions about the state of the world economy and its prospects changed over the year. The quick end of the Gulf conflict led to a surge of optimism early in the year about growth prospects but this soon vanished and many economies continued to slide into recession. The revamping of the economies of Eastern Europe and the former Soviet Union has proved much more difficult than was expected a year ago. Fears about the supply and price of oil, following the exit of Iraq and Kuwait from the market and the destruction of their oil infrastructure, turned out to be largely unfounded.

In 1991, international attention was largely focused on the restructuring of the economies of Eastern Europe and the former Soviet Union. External assistance, however, has not so far been extensive. There was a lack of consensus on the most appropriate way of effecting their transition to the market system.

The developed market economies have been facing pressing domestic problems. Consumer confidence remains shaky in some. The weakness of the financial institutions and the debt-burden of businesses and households, especially in the United States of America, has contributed to the fragility of the economic recovery. Large fiscal deficits have limited the room for policy manoeuvre. Unemployment has been rising significantly and income distribution has been worsening. Stagnation and frustration have produced political unrest and hostility against immigrants.

Efforts at economic reform, stabilization and structural adjustment continue in many developing countries. The international environment remains unfavourable. The external resource constraint remains serious in many economies, and non-fuel commodity prices fell to record lows in the second half of 1991, seriously limiting the import capacity of commodity-dependent countries. With the weakening of the world economy the growth of exports is slowing, even for the most successful exporters.

World trade ran out of steam in 1991 after a number of years of high growth, and there was little progress in the negotiations to strengthen the multilateral trading system. The Uruguay Round remained stalemated and only in the last few weeks of the year did some signs of progress emerge.

Natural and man-made disasters were severe. A devastating cyclone in Bangladesh, floods in China and a volcanic eruption and cyclone in the Philippines caused enormous damage to these economies and the loss of hundreds of thousands of human lives. Civil wars in the Horn of Africa brought terrible suffering to millions of people through displacement and starvation. Many of the people directly affected by the Gulf conflict continue to suffer.

II. DEVELOPMENTS IN 1991

A. Fall in world output

1. Recession in developed market economies

In early 1991, three of the seven major industrial economies were in outright recession - Canada, the United Kingdom of Great Britain and Northern Ireland and the United States of America. Production surged in western Germany and Japan, but as the year drew to a close, these economies slowed down and there was little recovery elsewhere. Compared with 1990, the developed market economies are estimated to have grown by 1 per cent, the slowest rate since the recession of 1982.

Unemployment in the United States was close to 7 per cent in 1991, more than 1 percentage point higher than in 1990 (see table 3). Canada's unemployment, 2 percentage points higher than in 1990, exceeded 10 per cent. In the United Kingdom, unemployment rose above 9 per cent during the summer; it was 6.7 per cent the previous year. The French economy, which stopped growing at the end of 1990, picked up in 1991, but unemployment nevertheless climbed back above 9 per cent. Although not in recession, the Italian economy was sluggish, with unemployment above 10 per cent.

Renewed inflationary concerns in the late 1980s provoked a monetary stringency that had slowed down several of the developed market economies by the end of 1990. In 1991, inflation rates were brought down, but some countries were pushed into recession in the process. In other countries, a drop in consumer and business confidence associated with the Gulf conflict contributed to recession. With the end of the conflict, confidence returned temporarily in several industrial countries. However, neither consumer nor investment spending rebounded and the recovery remains elusive.

The sharp peak in international petroleum prices in late 1990 was largely unwound by the first quarter of 1991. Non-fuel commodity prices on international markets declined. Coupled with the recessionary dampening of wage movements, inflation and inflationary expectations eased, allowing policy makers to relax monetary policies.

In the United States, the Federal Reserve reduced its discount rate in several stages, from 7 per cent in December 1990 to 4.5 per cent in November 1991, the lowest level in 18 years. The full range of short-term interest rates fell significantly through the year; longer-term rates declined less. However, reductions in interest rates provide only a limited stimulus when there is little inclination to borrow - or lend - given the lingering recession and the already high levels of personal and corporate debt. The broad money supply in the United States (M_2) did not grow at all over the three months that ended in mid-November and had grown only 1 per cent at an annual rate since May.

Table 3. Output, unemployment and inflation in seven major industrial economies, 1981-1992

	1981-1987	1988	1989	1990	1991 a/	1992 b/
	Growth of gross domestic product (annual percentage change)					
Canada	3.1	4.6	2.5	0.5	-1.0	3
France	1.8	4.2	3.9	2.8	1.5	2
Germany, western c/	1.4	3.7	3.8	4.5	3.5	2 1/2
Italy	1.9	4.1	3.0	2.0	1.0	2
Japan c/	3.7	6.3	4.7	5.7	4.5	3 1/2
United Kingdom	2.6	4.0	2.0	0.7	-1.9	1 1/2
United States c/	2.7	4.4	2.5	1.0	-0.5	2 1/2
Total	2.6	4.6	3.2	2.5	1.1	2 1/2
	Unemployment d/					
Canada	10.0	7.7	7.5	8.1	10.2	10
France	9.2	10.0	9.4	8.9	9.2	10
Germany, western	6.4	6.2	5.6	5.1	4.5	4 1/2
Italy	9.3	11.0	10.9	9.9	10.0	10
Japan	2.6	2.5	2.3	2.1	2.1	2
United Kingdom	11.1	8.5	7.1	6.9	9.0	10 1/2
United States	7.7	5.4	5.2	5.4	6.8	6 1/2
Total	7.2	6.1	5.7	5.6	6.4	6 1/2
	Consumer prices (annual percentage change)					
Canada	6.5	4.1	5.0	4.8	4.5	3 1/2
France	7.6	2.7	3.5	3.4	3.3	3
Germany, western	2.8	1.3	2.8	2.7	3.6	4
Italy	11.5	5.1	6.3	6.5	6.4	5 1/2
Japan	2.1	0.7	2.3	3.1	3.5	2 1/2
United Kingdom	6.2	4.9	7.8	9.5	5.8	4
United States	4.7	4.0	4.8	5.4	4.0	3 1/2
Total	4.9	3.2	4.4	5.0	4.3	3 1/2

Source: Department of International Economic and Social Affairs of the United Nations Secretariat, based on data of the International Monetary Fund (IMF), the Organisation for Economic Cooperation and Development (OECD) and national sources.

a/ Partly estimated.

b/ Forecast, based in part on Project LINK.

c/ Gross national product.

d/ Percentage of total labour force, as standardized by OECD.

Japan has sought to manage relatively strong, albeit weakening, economic growth. The central bank took the opportunity of a calming of inflationary concerns to ease monetary policy; the Bank of Japan lowered the official discount rate by half a percentage point in July to 5.5 per cent and by an additional half a percentage point in November in order to stem the declining trend in investment attributed to the bursting of Japan's financial bubble in 1990 and certain policy constraints on lending in 1991 (e.g., for land acquisition). The external impulse to growth, however, has remained quite strong. Indeed, a softening domestic economy and strong export growth has sharply raised Japan's trade surplus.

Following the unification of Germany, there was a surge in demand and strong economic growth in the western part of the country. However, the growing fiscal deficit and rising inflation were viewed with unease by the authorities. In 1991, macroeconomic policy eased the demand pressure. The Government imposed a significant tax increase from 1 July, along with other measures of fiscal restraint, to reduce the public-sector borrowing requirement associated with unification. In addition, the Bundesbank raised official interest rates first in February by half a percentage point and then again in August when the discount rate was increased by 1 percentage point and the Lombard rate was raised 0.75 percentage point. German interest rates in 1991 were the highest they had been since 1982. The inflation rate is already receding but the Bundesbank is quite firm in its stance against inflationary pressure and its commitment to avoid a wage-price spiral in 1992.

The industrial countries that were in recession or slowdown in 1991 seem to have restricted their counter-cyclical policy responses to tentative and minor adjustments of monetary policy. Fiscal policy has not been brought to bear on the problem. Indeed, in none of the seven major economies was the fiscal impulse to aggregate demand positive in 1991.

2. Output plunges in the economies in transition

In Eastern Europe and the former Soviet Union, plans for economic reform have given way to programmes of complete economic transformation. The initial results have been serious economic disruption and steep drops in output (see table 4). Production fell in 1991 even in the countries that were expecting recovery to begin, notably Poland and Romania. In the former Soviet Union, national income was 13 per cent less in the first nine months of the year than in the same period in 1990; data for the fourth quarter, which will include the effects of the failed coup and its aftermath, is expected to be even worse. In the region as a whole, industrial production (the only fairly comprehensive indicator available thus far) is estimated to have fallen 16 per cent. 1/

Fixed investment in the first six months of 1991 fell about 20 per cent in Eastern Europe and by 16 per cent in the former Soviet Union, where the worst-performing industries were precisely those that are essential for profound structural change, namely energy, machine building, chemicals,

Table 4. Economies in transition: rates of growth of gross domestic product, 1981-1992

(Annual percentage change)

	1981-1987	1988	1989	1990	1991 a/	1992 b/
Former USSR c/	3.2	5.3	3.3	-2.1	-15.0	-12
Eastern Europe	2.4	2.4	--	-12.1 *	-11.3	-1 1/2
Bulgaria	3.9	2.6	-1.4	-11.8	-22.0	-10
Czechoslovakia	1.4	2.6	1.3	-4.7	-12.0	-5
Hungary	2.1	-0.1	-0.2	-4.0	-6.0	--
Poland	0.7	4.4	0.2	-12.0	-8.0	3
Romania	4.5	-0.7	-3.9	-8.2	-15.0	-5
German Democratic Republic	4.1	3.1	2.4	-25.1 *	-	-
Former USSR and Eastern Europe	3.0	4.4	2.3	-5.1 *	-14.1	-9 1/2

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

Note: A dash (--) indicates that the amount is nil or negligible; a hyphen (-) indicates that the item is not applicable; an asterisk (*) indicates discontinuity in the series.

a/ Preliminary estimate.

b/ Forecast.

c/ GNP.

transport and communications, and such socially important industries as housing. Adjustment entails the closing and retooling or replacement of inefficient plants, but without investment only the first step will be achieved.

Inflation has been exceeding expectations in almost all countries of the region, irrespective of whether the adjustment process began only recently or has been under way for some time. Unemployment has reached levels not seen in the post-war era 2/ and is expected to worsen in the short-to-medium run. This is an almost inevitable consequence of the need to raise productivity and meet the challenge of the world market. Management will be under great pressure to shed non-essential labour and it is likely that the evolving but

still rather limited private sector will not be able to absorb the growing pool of unemployed for some time.

Events such as the tumultuous coup of August 1991 in the former Soviet Union appear to flow from disruption of economic activity. It appears, however, that the protracted period of hesitation about the need for economic transformation has ended. At least one of the Soviet republics, Russia, appears to be determined to start a programme of radical transition to a market economy in the immediate future - alone, if necessary, if other republics continue to hesitate.

One key source of decline, especially in Eastern Europe, is the virtual collapse of trade among the countries of the region, following the decision taken by the Governments of those countries in 1990 to move to hard-currency payments for intraregional trade. Without adequate foreign exchange reserves or the institutional infrastructure for carrying out hard-currency trade, trade among those economies plummeted.

In the first 10 months of 1991, the value of Soviet imports from Eastern Europe fell 60 per cent and Soviet exports to the region fell by 57 per cent. 3/ In the first three quarters of the year, the total value of Soviet exports decreased by one third and that of imports fell by almost 50 per cent. Overall trade has suffered less than intraregional trade for both the Eastern European countries and the former Soviet Union, as countries tried to build up their exports to hard-currency markets.

The inflow of private external finance has fallen considerably short of expectations. Investor confidence in these economies is still low. One indicator is that only one country, Hungary, was able to arrange any significant private financing in 1991, whereas three countries had done so in 1990 and five in 1989. 4/ Even with creditor government guarantee, many international banks are passing up lending opportunities to the region, which has become virtually fully dependent on official creditors. Indeed, of the $9 billion of lending arrangements agreed by the International Monetary Fund in the first three quarters of 1991, $5 billion were for Eastern Europe.

3. Developing countries

In the developing countries, output is estimated to have increased almost 3.5 per cent in 1991 (see table 5). This is only marginally above the rate obtained in the previous two years and not much above the rate of growth of population. The increase in oil prices in the second half of 1990 eased foreign exchange constraints in several oil exporters and made a substantial difference in the rates of growth between oil-exporting and oil-importing developing countries.

The ability to adjust their economies and compete in the changing international environment has varied greatly among countries. A large number of countries have continued to pursue programmes of stabilization and reform. A few success stories contrast with many more failures.

Table 5. Developing countries: rates of growth of gross domestic product, 1981-1992

(Annual percentage change)

	1981-1987	1988	1989	1990	1991 a/	1992 b/
Africa	1.2	2.7	3.2	3.3	3.3	3 1/2
Energy exporters	1.0	1.7	3.2	4.3	4.2	3 1/2
Energy importers	1.5	4.6	3.2	1.6	1.8	3
China	10.0	11.3	3.3	5.0	6.5	7
South and East Asia	5.4	8.7	6.1	6.3	5.4	5 1/2
West Asia	-1.6	1.1	2.5	2.0	1.2	4
Mediterranean	3.2	1.4	1.0	0.4	-9.4	3 1/2
Latin America and the Caribbean	1.2	0.8	1.1	-0.5	2.7	3
Energy exporters	0.9	2.2	-0.2	2.4	4.7	4 1/2
Energy importers	1.4	0.0	1.8	-2.1	1.6	2
Total	3.1	5.0	3.2	3.0	3.5	4 1/2
Memo items:	3.0	4.4	2.3	-5.1*	-14.1	-9 1/2
Sub-Saharan Africa (excluding Nigeria)	1.4	3.1	2.7	1.5	2.0	3
15 heavily indebted countries c/	1.2	1.2	1.4	-0.1	1.0	3

Source: Department of International Economic and Social Affairs of the United Nations Secretariat.

a/ Preliminary estimate.

b/ Forecast.

c/ Argentina, Bolivia, Brazil, Chile, Colombia, Côte d'Ivoire, Ecuador Mexico, Morocco, Nigeria, Peru, Philippines, Uruguay, Venezuela and Yugoslavia.

In Latin America and the Caribbean, output increased by some 2.7 per cent in 1991, after a decline of 0.5 per cent the previous year. Some of the major economies of the region are beginning to recover after years of stabilization and adjustment efforts. There was a notable improvement in the growth performance of the two large energy producers, Mexico and Venezuela, and of Argentina and Chile. Yet the overall picture remains one of stagnation of output and falling living standards.

Brazil, which had zero growth after a 4 per cent decline in 1990, heavily influences the regional average. Macroeconomic instability is severe, and the Government is still struggling to build political support for its economic reforms.

The impact of the Gulf conflict was serious for a number of countries of West Asia. In Kuwait, the pace of reconstruction has been faster than expected. All oil-well fires had been extinguished by November and oil production is currently at the level of more than 300,000 barrels per day, still less than the 20 per cent of pre-conflict levels. Great uncertainties surround the economic situation in Iraq. Available information points to an almost 50 per cent decline in the output of the economy in 1991, after a 30 per cent decline in 1990. In Jordan, the third most affected country of the region, the decline in output in 1991 was around 3 per cent, following a considerable fall in 1990.

The economic growth of the other energy exporters of the West Asia region was stimulated by an increase in their oil output following the exit of Iraq and Kuwait from the market and the temporary rise in oil prices in 1990. The Islamic Republic of Iran, Saudi Arabia and the Syrian Arab Republic expanded by 5 to 7 per cent. Nevertheless, the decline in output in Iraq, Jordan and Kuwait was so large that there was probably very little growth for the region as a whole in 1991.

In Africa, output is estimated to have grown somewhat more than 3 per cent, about the same as in the previous two years. With population growing by around 3 per cent, per capita output has remained virtually unchanged for the third consecutive year, following several years of decline. The terms of trade deteriorated for many countries and real income per capita fell. Attempts at economic reform and diversification continue, but their results have yet to be translated into sustained increases in output and income. In 1991, energy-exporting African countries grew by over 4 per cent, but for the energy-importing countries of the region, the rate of growth did not exceed 2 per cent, which is well below the rate of growth of population. Rainfall has been good except for some areas in the Sahel and eastern and southern Africa. The growth of agricultural output, though widely different among the subregions, has generally been satisfactory and this has contributed to growth in some countries. In many countries, however, food output was inadequate and food shortages remain serious in the Horn of Africa, Angola, Liberia and Mozambique, especially among displaced people.

Growth remained high in South and East Asia, although it slowed from 6.3 per cent in 1990 to around 5.4 per cent in 1991. The first and second

generations of successful exporters of manufactures of the region have been growing at above 6 per cent. The Republic of Korea reached 9 per cent growth and Thailand 8 per cent. Despite a general slow-down, inflation has been increasing in most of these countries.

Much of the slow-down in the region is due to the fact that the largest country of the region, India, is estimated to have grown around 3 per cent in 1991 compared with an average of 5 per cent in recent years. The Government is taking major steps to reduce the large fiscal and current account deficits that precipitated the present crisis and to liberalize the economy radically. India's adjustment programme is supported by sizeable loans from the International Monetary Fund. Economic growth also slowed in 1991 in Sri Lanka. In Bangladesh, which suffered a devastating cyclone in April, economic growth is down to 3 per cent. Pakistan stayed at a little over 5 per cent. In the Philippines, a combination of factors, including a succession of natural calamities, the consequences of the Gulf crisis and the uncertainties arising from the closing down of United States military bases, brought economic growth to a near halt.

In China, the devastating floods of May 1991 caused large losses of infrastructure and output, estimated at more than $12 billion. While some areas were under flood waters, other areas were suffering drought. These factors held growth of agriculture production to below 2 per cent in 1991. Industrial production, however, is estimated to have increased by nearly 14 per cent in the first three quarters of the year over the level of the same period in 1990. As a result, China's economy expanded by more than 6 per cent in 1991 and is likely to maintain the pace or improve on it in 1992, but this performance is troubled by increasing stockpiles of finished products and mounting bad debts of state enterprises.

The conflict in Yugoslavia and the collapse of its economy dominate the scene in the Mediterranean group of countries. The conflict has disrupted the economic links between the country's highly interdependent republics. The deterioration accelerated in the second half of the year and total output for 1991 as a whole may have been 30 per cent below the level of 1990. Growth in Turkey, the other large economy of the region, is estimated to have slowed to 3 per cent in 1991, after 9 per cent in 1990.

B. World trade runs out of steam and commodity prices fall again

According to preliminary estimates, world trade increased by only about 1 per cent, the slowest growth since 1982. This contrasts sharply with the average growth of above 6 per cent in the late 1980s. The decline has been widespread, with a sharp deceleration in the industrial countries and a collapse of trade among the Eastern European countries and the former Soviet Union.

Reflecting the slow-down of the world economy, prices of non-fuel commodities fell in both nominal and real terms (see figure 1). In nominal

dollar terms, the decline was around 6 per cent in the first 10 months of 1991, compared with the corresponding period of 1990. Declines were recorded in almost all major commodity groups: food prices were down by about 7 per cent, tropical beverages by 8 per cent and metals by 9 per cent. In real terms, that is, relative to prices of manufactures, prices were at record low levels, forcing many commodity exporters to compress imports.

Oil prices remained stable in much of 1991 after the turbulence in 1990 (see figure 2). Early in 1991, prices came down from the peak following the outbreak of the Gulf conflict. By the end of the year, they were only marginally higher than at the beginning of 1990. The slight upward trend at the end of the year was a reflection of the tightening of supply. While a sharp rise in prices in the near term is not expected, the endemic uncertainty about their future trend remains. Much will depend on the speed of re-entry of Iraq and Kuwait into the international market.

World import demand continues to be constrained by the heavy debt burdens of a large number of developing countries. Yet, the international debt problem appears more tractable today, though it remains serious for many developing countries. Actions taken during 1991 - the new Philippine agreement with commercial banks, the special Paris Club agreements that will virtually halve the debt to official creditors of Egypt and Poland, and the write-off of some official loans by certain major donors - have made it clear that creditors recognize the existence of a "debt overhang" for many countries that must be reduced if programmes of adjustment, liberalization and development are to succeed.

Private capital flows to developing countries have been increasing. Direct investment, in particular, has in the past few years flowed to Asian countries, and increasingly also to Latin America. For 1991, net direct investment in capital-importing developing countries is estimated to be about three times what it was at the height of the debt crisis in the mid-1980s. Some of this investment is tied to the debt crisis in the form of debt-for-equity swaps; but large amounts are in response to newly perceived opportunities for economic growth.

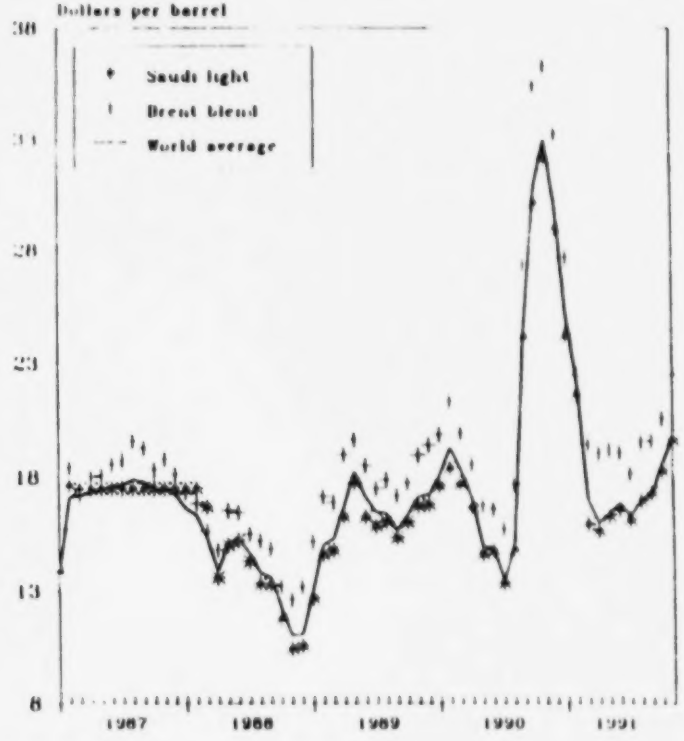
In 1991, Latin America returned to the capital markets. A noteworthy event was the successful flotation in October of a 10-year Eurobond issue by Mexico's national development bank. None the less, the countries served by the international financial markets are primarily Asian ones. In the first nine months of 1991, Asian borrowers, including countries of the Gulf, accounted for almost 80 per cent of the developing country bank loans and bond issues arranged.

While the negotiations about the multilateral trading system were essentially stalled, bilateralism in trade relationships and the formation of trading blocs were gaining. Further impetus was given to the formation of a North American trading bloc which would include Mexico. Economic integration has been receiving increased attention in Latin America, exemplified in the formation of the Southern Cone Common Market. The idea of an East Asian

Figure 1. Prices of developing country non-fuel commodity exports, 1982-1991

Source: Data of UNCTAD and UN/DIESA.
* Deflated by index of manufactured export prices of industrial countries.

Figure 2. International crude oil spot prices, 1987-1991



Source: UN/DIESA, based on U.S. Department of Energy data.

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economic grouping is being pursued. There is little sign that protectionism is abating, but this would anyway be unlikely in a period of slow economic growth. It is noteworthy, however, that an increasing number of developing countries have liberalized their trade regimes, and more continued to do so in 1991 - Argentina, Brazil, India and the Islamic Republic of Iran, for example.

The Uruguay Round, originally scheduled for completion by the end of 1990, remains in suspense. Some encouraging signs of progress have emerged in the area of agriculture, which is a stumbling block. At the end of 1991, the outcome remained uncertain, with the guarded hope that the Round would be completed in early 1992.

III. INADEQUATE RECOVERY IN 1992

The decline in world output in 1991 is expected to give way to an increase in 1992, but this may not be more than 1.5 per cent, much the same as in 1990 and less than half the rate of the late 1980s. World per capita income will have fallen for the third consecutive year. The developed market economies will probably grow by around 2.5 per cent. Output in Eastern Europe and the former Soviet Union is expected to fall further. A marginal improvement in growth is expected for the developing countries.

The relaxation in monetary policy in 1991 is not expected to have more than a modest stimulating effect in the coming months. In the United States, there are few signs of fiscal stimulus. Monetary policies are expected to remain restrictive in Germany, although demand pressures are easing rapidly in the western part. In Japan, growth is expected to continue weakening in 1992.

Great uncertainties surround the prospects of the European economies in transition, especially the former Soviet Union. A further large drop in output in the region appears likely, with a wide variation among countries. While Poland may achieve modest growth in 1992, Bulgaria, Czechoslovakia, Romania and the former Soviet Union - which will require a rescheduling of official and commercial external debts - may experience a further fall of output, ranging from 5 to 12 per cent. It is possible that in several countries of the region, output at the end of the decade will be lower than in 1980.

Developing countries are expected to improve their growth rates from around 3.5 per cent in 1991 to 4.5 per cent in 1992. This will depend to a certain extent on Latin America, where prospects for Brazil remain in doubt. Growth is expected to accelerate in China and improve in India. Exporters of manufactures are already experiencing the impact of the sagging world economy, which is likely to be reflected in their growth performance. Primary exporters may continue to suffer sluggish export demand and weak prices.

IV. THE SHORT-TERM INTERNATIONAL POLICY AGENDA

The surge of optimism about the world economy that began with the end of the cold war and the dramatic changes in Eastern Europe and the former Soviet Union was almost immediately followed by a slide into recession. The experience of the past two years draws attention to the magnitude of the tasks that still need to be accomplished at both national and international levels, if the peace dividend is to be reaped and the forces of the new liberalism are to be productively harnessed.

The most urgent task is to get the world economy growing again. Given time, most economies will grow. The objective of economic policy should be a judicious shortening of that time.

There is little doubt about the case for stimulating growth in some major developed economies, especially the United States and Japan, which account for a large proportion of world output. While guarding against inflation must remain a major objective of economic policy in any country, in a situation of depressed demand and substantial unemployment of manpower and productive capacity, as in the United States, fiscal stimulus need not be inflationary especially if it is clearly understood to be temporary.

In Japan, sagging domestic demand in a situation of relatively small fiscal deficit appears to call for a fiscal stimulant, while the need to reduce the growing trade surplus warrants it. It will also provide a needed boost to growth in other economies.

There is little choice in Eastern Europe and the former Soviet Union other than to resolutely pursue programmes of restructuring. The rest of the world needs to help with a combination of financial resources and generous offers of opportunities to trade, particularly with the European Economic Community. Assistance need not be mere benevolence: rising social tension in the economies in transition could easily have serious repercussions in the rest of Europe, including a large flow of immigrants.

Though the developing economies as a whole did not slide into recession with the rest of the world in 1991, a large number of them continue to founder. Their revival needs a continuation of structural adjustment and reform, but this is unlikely to be achieved in the absence of an increased flow of resources from the rest of the world. Social tension is already high in a large number of countries after years of stabilization efforts and stagnation. This has the potential for frustrating these efforts and tension can spill over to the rest of the world.

The debt problem looks more manageable for some countries but it remains severe for others. While current efforts at debt relief should be intensified, more attention needs to be given to increasing the flow of new money to the debtor countries.

The growth of the resources of the International Monetary Fund has fallen well below the growth of the world economy. The proposed 50 per cent increase

in those resources under the Ninth General Review of Quotas was approved in June 1990 and needs to be given effect to promptly.

An early and successful conclusion of the Uruguay Round will strengthen the multilateral trading system. It will help renew confidence, increase trade-related investments and stimulate the world economy.

All in all, the world economy faces a period of exceptional uncertainty and great difficulty. The balance between the sources of expansion and stagnation in the world economy seems unfavourable. Policy makers in most industrial countries are for various reasons reluctant to stimulate economic activity; commodity exporters are still adjusting downward; the countries of Central and Eastern Europe continue to contract; and the dynamic economies of East Asia cannot on their own overcome the frictions that continue to keep the international economy stagnant.

Notes

1/ Data from the economies in transition must be interpreted with great caution as the statistical system and data collection are in flux. In any event, there is no doubt that the region is in major economic decline.

2/ Poland's open unemployment rate surpassed 10 per cent in August 1991 and was rising. Bulgaria and Romania had unemployment rates of about 10 per cent, Czechoslavakia and Hungary about 6 per cent.

3/ Because this is a transition year for data collection as well as for the trade regime and because rouble exchange rates are unsettled, value data are not even rough indicators of trade volumes.

4/ Data of OECD, Financial Statistics Monthly, October 1991.